

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Gaines Analyst: Jennifer Bettencourt Bill Number: AB 388
Related Bills: See Legislative History Telephone: 845-5163 Introduced Date: February 15, 2007
Attorney: Douglas Powers Sponsor: _____

SUBJECT: Renter Credit/Homeowners' Property Tax Exemption/Increase Credit & Exemption Amounts On And After January 1, 2008

SUMMARY

This bill would increase the amount of the homeowner's property tax exemption and the amount of the renter's credit.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to reduce the property tax burden for taxpayers due to rising costs in the housing market, making it more affordable to purchase a house, and correspondingly increase the renter's credit as required by the California Constitution.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment, and the provisions amending the renter's credit are specifically operative for taxable years beginning on or after January 1, 2008.

POSITION

Pending.

Summary of Suggested Amendments

Amendments 1 and 2 have been provided to resolve technical errors.

ANALYSIS

STATE LAW

Current state law requires a taxpayer who owns real estate not used for business to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. For individuals who file a claim for the homeowners' exemption, the first \$7,000 of the full value of the taxpayer's dwelling is exempt from property tax.

Board Position:

____ S ____ NA ____ NP
____ SA ____ O ____ NAR
____ N ____ OUA ____ X PENDING

Department Director

Date

Selvi Stanislaus

3/19/07

Current state law allows an individual who fails to claim the exemption timely to file an affidavit with the assessor for an exemption equal to the lesser of \$5,600 or 80% of the full value of the dwelling.

In addition, current state law allows a nonrefundable income tax credit for qualified renters in the following amounts:

- \$60 for single and married filing separate with an adjusted gross income (AGI) of \$32,272 or less, and
- \$120 for married couples¹ filing joint, heads of household, or surviving spouse with an AGI of \$64,544 or less.

Current state law requires the amount of AGI to be adjusted annually for inflation.

The California Constitution requires the Legislature to provide increases in benefits to qualified renters that are comparable to the average increase in benefits provided under the homeowner's property tax exemption.

THIS BILL

This bill would increase the amount of the homeowner's property tax exemption from \$7,000 to \$25,000 beginning with the lien date for the 2008/09 fiscal year.

For taxable years beginning on or after January 1, 2008, this bill would also increase the nonrefundable income tax credit for qualified renters in the following amounts:

- \$215 for taxpayers filing single or married filing separate with an AGI of \$32,272 or less, and
- \$430 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of \$64,544 or less.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

TECHNICAL CONSIDERATIONS

Amendments 1 and 2 are provided to correct technical errors.

¹ California enacted SB 1827 as law, beginning January 1, 2007, which requires registered domestic partners to use the same filing status as married couples; married filing joint, married filing separate, and surviving spouse.

LEGISLATIVE HISTORY

AB 293 (Strickland, 2007/2008) would increase the homeowner's property exemption from \$7,000 to \$22,000 on the full value of a dwelling. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 351 (Smyth, 2007/2008) and AB 495 (Tran, 2007/2008) would increase the amounts for both the homeowners' property tax exemption and the renters' credit for individuals 62 years or older. These bills are currently in the Assembly Revenue & Taxation Committee.

AB 968 (Walters, 2007/2008) would increase the homeowner's property exemption for first-time homebuyers to 25% of the dwelling purchase price and adjust the renter's credit for inflation for taxable years on or after January 1, 2008. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 972 (Walters, 2007/2008) would increase the amount of the homeowner's property tax exemption and require the Franchise Tax Board to annually adjust the renters' credit amount for inflation. This bill is currently in the Assembly of Revenue & Taxation.

AB 62 (Strickland, 2005/2006) would have increased the homeowner's property tax exemption from \$7,000 to 25% of the value of the dwelling for certain taxpayers. AB 62 failed to pass out of the Legislature by the constitutional deadline.

AB 185 (Plescia, 2005/2006) would have increased the amount of the homeowner's property tax exemption from \$7,000 of the full value of the dwelling to \$15,000 for individuals 62 years or older. This bill failed to pass out of the Legislature by the constitutional deadline.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

The Franchise Tax Board does not administer property taxes and, due to the variances of other states' property tax laws, it is difficult to make a meaningful comparison with respect to the increase in the homeowners' property tax exemption amount. With the exception to the property tax exemption, similar findings are listed below.

Property Tax Credit and Renter's Credit

Michigan allows renters or lessees of homesteads to claim a credit based on 20% of the gross rent paid for taxable years after 1993. A person who rents or leases a homestead, subject to a service charge instead of property taxes, can claim a credit based on 10% of the gross rent paid. Only the renter or lessee can claim a credit on property that is rented or leased as a homestead. The maximum credit is \$1,200.

New York allows a real property tax credit for residents who have household gross income of \$18,000 or less, and pay either real property taxes or rent for their residences. If all members of the household are under age 65, the maximum credit is \$75. If at least one member of the household is age 65 or older, the maximum credit is \$375.

Illinois, Massachusetts, and Minnesota do not have a comparable credit. *Florida* does not have a personal income tax.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 388 Effective with the Lien Date for the 2008-09 Fiscal Year Enactment Assumed After June 30, 2007 (\$ in Millions)			
	2008-09	2009-10	2010-11
Homeowners	+\$28	+\$47	+\$47
Renters' Credit	-\$166	-\$162	-\$166
Total Loss	-\$138	-\$115	-\$119

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Renters' Credit – The revenue impact of this provision was calculated using the microsimulation model. The impact will be determined by increased claims due to the larger credit amount. It is projected that for the 2007 tax year there will be a total of 1 million taxpayers claiming the renter's credit as proposed by this bill. The difference between the current renter's credit amount and the amount proposed by this bill is \$155 for single, and \$310 for married filing joint.

Homeowners' Exemption – The income tax impact of this provision would result from smaller property tax deductions reported by taxpayers that itemize deductions on their personal income tax returns. This analysis assumes that the first lien date after enactment of the bill would be March, 2008.

Based on current tax return data, it is estimated that 5.8 million taxpayers filing income tax returns would itemize a deduction for their home property taxes for the 2008 tax year. The Board of Equalization estimates the average property tax rate as 1.098%. Applying this tax rate to the increased exemption amount (\$25,000 - \$7,000 = \$18,000) would generate an additional property tax savings of \$198 ($\$18,000 \times 1.098\% = \198) per taxpayer. The total income tax increase would be \$45 million (5.8 million taxpayers x \$198 x the marginal tax rate).

The revenue estimates presented above were calculated by decreasing property tax deductions by \$45 million. The fiscal year estimates are based on the assumption that 55% of 2008-09 property tax payments will be made in 2008, reducing the impact to \$28 million.

LEGISLATIVE STAFF CONTACT

Jennifer Bettencourt
Franchise Tax Board
845-5163
jennifer.bettencourt@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov

Analyst	Jennifer Bettencourt
Telephone #	(916) 845-5163
Attorney	Douglas Powers

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 388
As Introduced February 15, 2007

AMENDMENT 1

On page 5, line 26, after "on", ~~strikeout "and"~~, and insert "or"

AMENDMENT 2

On page 5, line 32, after "on", ~~strikeout "and"~~, and insert "or"